South Carolina Retirement System Investment Commission
Meeting Minutes

March 23, 2012

15th Floor Conference Room
1201 Main Street
Columbia, South Carolina 29201

Commissioners Present:
Mr. Allen Gillespie, Chairman (in person)
Mr. Reynolds Williams, Vice Chairman (via telephone)
Mr. Edward Giobbe (via telephone)
Mr. James Powers (via telephone)
Dr. Travis Pritchett (via telephone)
State Treasurer Curtis M. Loftis, Jr. (in person)

Others present for all or a portion of the meeting on Monday, March 23, 2012:

Sarah Corbett, Robert Feinstein, Hershel Harper, Adam Jordan, Lorrie King, James Manning, Heather Muller, Nancy Shealy, and Brian Wheeler from the South Carolina Retirement System Investment Commission; Shakun Tahiliani from the State Treasurer's Office ("STO"); Tammy Nichols (via telephone) from the South Carolina Retirement Systems ("SCRS"); Jim Holly (via telephone) from the Comptroller General's Office; Adam Barnett (via telephone) from McLagan; and Andrea Taylor from Creel Court Reporting.

I. CALL TO ORDER, ADOPTION OF PROPOSED AGENDA

Chairman Allen Gillespie called the meeting of the South Carolina Retirement System Investment Commission ("Commission") to order at 10:00 a.m. Chairman Gillespie referred to the proposed meeting agenda and asked for a motion to approve. Mr. Curtis Loftis made a motion to approve the agenda as presented, which was seconded by Mr. James Powers and passed unanimously.

II. ADOPT COMPENSATION RECOMMENDATIONS

Chairman Gillespie advised the Commission that the Compensation Committee met on March 12, 2012, to further discuss compensation recommendations presented by McLagan at the previous meeting. Chairman Gillespie stated that the Compensation Committee made recommendations which will need to be voted and acted on prior to presenting an outline to the Senate Finance Committee the following week. He also reminded the Commission that the proposed Compensation Policy should be finalized by the April Commission meeting, and approved at the May meeting.

Chairman Gillespie discussed several key questions that the Compensation Committee considered, including whether the Performance Incentive Compensation ("PIC") plan should include a qualitative component. The Compensation Committee decided against including a qualitative component, but rather required all investment staff to receive at least a "meeting expectations" evaluation on their annual Employee Performance Management System ("EPMS") evaluation to qualify. Chairman Gillespie reported that the Compensation Committee agreed that the maximum incentive payout should vary by the following position levels: Chief

Investment Officer (”CIO”) and Deputy CIO/Director 100 percent, Officer level 80 percent, and Analyst level at 60 percent. It was noted that McLagan recommended the incentive payout to be 120 percent for the CIO. Chairman Gillespie also advised that the Compensation Committee adopted McLagan’s suggestion to simplify the formula by using just the policy benchmark, rather than including the strategy benchmark, and that the formula should utilize the existing multi-year weighting of 20 percent for the 1 year return, 30 percent for the 3 year return, and 50 percent for the 5 year return. Chairman Gillespie stated that the Compensation Committee recommended the performance scale go from zero to 50 basis points, and also recommended that the Commission should have discretion to pay the PIC in negative return years of less than 10 percent. It was determined that the PIC would not be paid if the negative return was greater than 10 percent. Chairman Gillespie also reported that the Compensation Committee discussed whether the PIC should include interest in future payouts due to deferrals in negative years, and what, if any, tax deferral issues would arise. McLagan indicated that the tax deferral would not be an issue because there would not be constructive receipt, and therefore, would not create a taxable event for the employee.

Discussion ensued regarding forfeiture of the PIC payout in the event of voluntary separation. Mr. Adam Barnett from McLagan pointed out that the proposed Compensation Policy includes the forfeiture of the payout in the event of voluntary separation. Mr. Robert Feinstein, Chief Legal Officer, clarified that the forfeiture arrangement had two components. In the event of death, disability or “regular retirement”, there would not be a forfeiture, but there would be a forfeiture for any other separation of employment. Ms. Nancy Shealy, General Counsel, further clarified that “retirement” is defined in the statutes.

In response to a question from Mr. Edward Giobbe regarding the public funds peer group, Mr. Barnett stated that the recommendation of percentages reflected the Commission’s decision to target compensation at the top decile of a select group of comparably sized public pension funds. Chairman Gillespie also pointed out that the peer group was defined in the last Commission meeting, and that the materials are on the extranet for review if needed.

In response to a question from Mr. Loftis, discussion ensued regarding the CIO’s compensation. Chairman Gillespie noted that the Commission would need to go into executive session to discuss the CIO’s compensation, but that the general thought was that the compensation would be set after the CIO applicants’ resumes were reviewed and candidates for the position were selected.

In response to a question from Dr. Travis Pritchett, discussion returned to the percentage of payout for the CIO position. Dr. Pritchett pointed out that McLagan recommended the incentive payout of 120 percent for the CIO position. Messrs. Powers, Loftis, and Reynolds Williams stated that they all agreed with the Compensation Committee of 100 percent incentive payout for the CIO position. Mr. Barnett explained the rationale behind McLagan’s increased incentive amount for the CIO position, and stated that it was a way of increasing the maximum total compensation, since salaries were subject to an increase cap of 20 percent. Chairman Gillespie clarified that the McLagan compensation study pointed out that the RSIC salaries were below the high quartile for both the peer group and larger public funds group in both base salary and total compensation. Chairman Gillespie reminded the Commission that the CIO was not subject to the increase cap of 20 percent. It was also noted that the Director of Operations would not be eligible for the PIC.

Discussion ensued regarding whether a highwater mark provision should be included in the Compensation Policy. Chairman Gillespie stated that the Compensation Committee thought the highwater mark made sense because it adjusted for flows in the absolute return, and creates the same deferral issue. After additional discussion, it was determined that a highwater mark provision was not needed since the Commission would have the discretion to pay out or defer the PIC in negative return years. Mr. Feinstein also pointed out the other components of the policy already contain multi-year hurdles that the investment staff would have to surmount in order to receive thePIC.

Mr. Williams made a motion to accept all of the recommendations of the Compensation Committee, with the exception of the highwater mark. Mr. Loftis seconded the motion for further discussion. Mr. Giobbe asked for further clarification on the highwater mark. Chairman Gillespie clarified that under the highwater mark provision, the PIC would not be paid until the Plan has a new high in assets adjusted for flows. Mr. Barnett also pointed out that he was not aware of another public pension fund that had a similar highwater mark provision.

Discussion continued regarding the discretion of the Commission to pay the PIC in negative return years of less than 10 percent. Mr. Williams suggested that the discretion could also include establishing a highwater mark under unique circumstances. Ms. Shealy clarified that the highwater mark would be deferred upon conditions as determined appropriate by the Commission. Mr. Powers opined that in his experience, when it comes to incentive compensation, it is better to eliminate as much discretion as possible. Mr. Barnett advised the Commission that there are three instances where discretion would be necessary: in a year where the absolute performance is from zero to minus ten; defining the term senior management; and the Commission’s ability to alter the Compensation Policy when the Commission deems necessary.

After further discussion, the question was called. In response to a procedural question, it was clarified that the motion, as presented, called for the Commission to approve the PIC payout varied by the following position levels: CIO and Deputy CIO/Director 100 percent, officer level 80 percent, and Analyst level at 60 percent. The motion passed unanimously.

In a response to a question by Mr. Powers, Chairman Gillespie stated that Ms. Joye Lang from the Office of Human Resources (“OHR”) would be collecting and reviewing the applications for the CIO and Director of Operations positions, and culling the applications that do not meet the minimum requirements. Ms. Lang will then forward the qualified applications to the Commission for review.

Chairman Gillespie clarified that the next Commission meeting is April 19, 2012, and that the investment retreat will be held at the Wampee Training and Conference Center in Pinapolis, South Carolina on May 17-18, 2012.

(Information relating to this matter has been retained in the Commission’s files and is identified as Exhibit A).

III. ADJOURNMENT

There being no further business, the meeting adjourned at 10:45 a.m.

[Staff Note: In compliance with S.C. Code Ann. §30-4-80, public notice of and the agenda for this meeting were delivered to the press and to parties who requested notice and were posted at the entrance, in the lobbies, and near the 15th Floor Conference Room at 1201 Main Street, Columbia, SC, at 9:30 a.m. on March 21, 2012.]